

**HANCOCK PUBLIC SCHOOLS**  
**HANCOCK, MICHIGAN**

**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**

**June 30, 2006**

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### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Hancock Public Schools  
Hancock, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hancock Public Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 16, 2006 on our consideration of Hancock Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hancock Public Schools' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Hancock Public Schools. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

August 16, 2006



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Hancock Public Schools  
Hancock, Michigan

We have audited the general purpose financial statements of Hancock Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Hancock Public Schools' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hancock Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the School District's Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

August 16, 2006

**Hancock Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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This section of Hancock Public Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

**Financial Highlights**

Qualified Zone Academy Bonds

The School District received \$379,255 in Qualified Zone Academy Bonds (Interest Free Money). The District is utilizing the Qualified Zone Academy Bonds (QZAB) in purchasing an estimated 30 computers, 35 laptops, four buses and a copier, printer and scanner.

The District qualified for a QZAB because the elementary school had in excess of 35% of its students on the free/reduced lunch program. The District established a partnership with River Valley State Bank to match 10% of the QZAB allocation received from the State of Michigan.

Deficit Elimination

The District successfully eliminated the deficit of \$74,552 from June 30, 2005 by implementing the following steps: reducing instructional, maintenance, and transportation expenditures, establishment of an ISD wide technology support system, and a change in administration health insurance to a less expensive plan. In addition, the principals had volunteered to teach one class without additional compensation to reduce salaries and benefits. This was met with opposition from the Hancock Education Association (HEA) and was not pursued. In an effort to continue to reduce expenditures in the general fund the District offered a voluntary severance plan for the HEA for teachers employed with the district who had twenty-five years or more of service credit in the Michigan Public School Employees' Retirement System. Unfortunately, HEA members didn't take advantage of the early retirement option.

School Bond Loan Fund

For a second year the District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

**Overviews of the Financial Statements - Continued**

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased, capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, School Food Service, and Athletics funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, School Food Service and Athletic Funds.



**Hancock Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Summary of Net Assets**

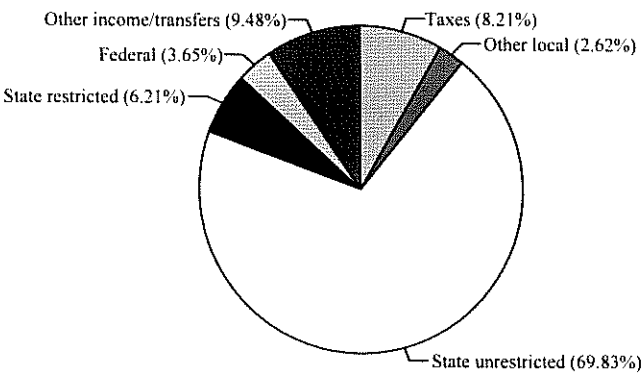
	2006	2005
<b>Assets</b>		
Current and other assets	\$ 1,403,704	\$ 1,440,309
Restricted cash and investments	313,905	6,619,870
Capital assets - Net of accumulated depreciation	10,901,391	11,302,927
<b>Total Assets</b>	<u><u>\$ 12,619,000</u></u>	<u><u>\$ 19,363,106</u></u>
<b>Liabilities</b>		
Current liabilities	\$ 3,418,304	\$ 9,613,898
Long-term liabilities	12,941,473	13,311,468
<b>Total Liabilities</b>	<u><u>16,359,777</u></u>	<u><u>22,925,366</u></u>
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	(3,719,641)	(3,200,675)
Restricted	151,218	66,594
Unrestricted	(172,354)	(428,179)
<b>Total net assets</b>	<u><u>(3,740,777)</u></u>	<u><u>(3,562,260)</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 12,619,000</u></u>	<u><u>\$ 19,363,106</u></u>

**Results of Operations in Governmental Activities**

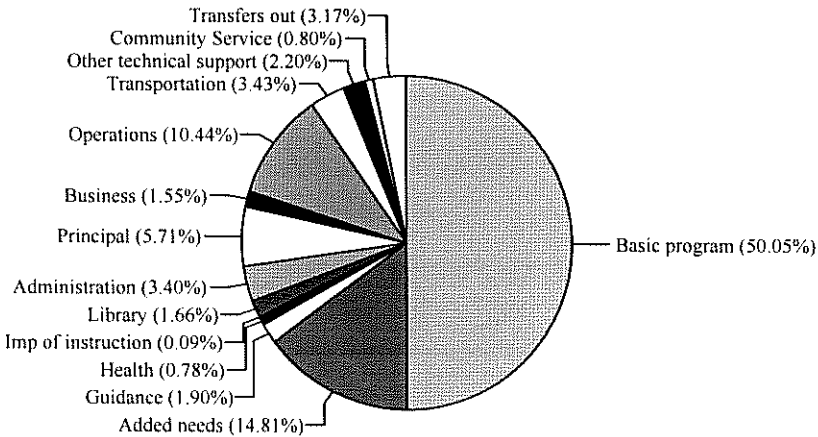
	2006	2005
<b>Program Revenue:</b>		
Charges for services	\$ 199,399	\$ 208,243
Grants and contributions	993,015	994,526
<b>General Revenue:</b>		
Taxes	1,804,447	1,722,769
State foundation allowance	5,625,907	5,454,170
Other	590,483	341,686
<b>Total Revenue</b>	<u><u>9,213,251</u></u>	<u><u>8,721,394</u></u>
<b>Functions/Program Expenses</b>		
Instruction	5,409,407	5,421,328
Support services	2,501,351	2,433,297
School food services	363,655	359,494
Athletics	169,406	178,080
Interest on long-term debt	943,778	582,224
Other debt	4,171	146,676
<b>Total Expenses</b>	<u><u>9,391,768</u></u>	<u><u>9,121,099</u></u>
<b>Change in Net Assets</b>	<u><u>(178,517)</u></u>	<u><u>(399,705)</u></u>
<b>Net Assets - Beginning</b>	<u><u>(3,562,260)</u></u>	<u><u>(3,162,555)</u></u>
<b>Net Assets - Ending</b>	<u><u>\$ (3,740,777)</u></u>	<u><u>\$ (3,562,260)</u></u>

The following charts highlight the District's General Fund activities:

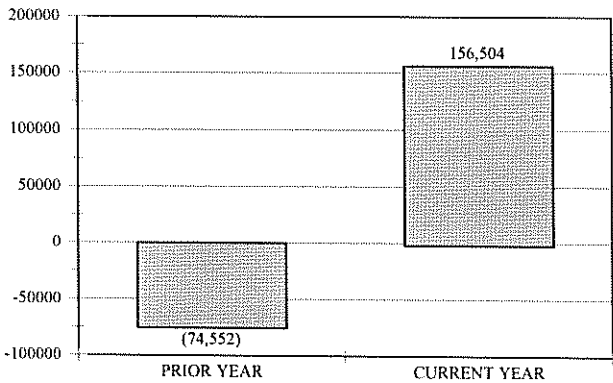
2005-06 Revenues



2005-06 Expenditures



Fund Balance Comparison



**Hancock Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 7,980,970	\$ 7,486,989	\$ 493,981
Expenditures/Transfers	\$ 7,749,914	\$ 7,683,608	\$ 66,306
Fund Balance	\$ 156,504	\$ (74,552)	\$ 231,056
Debt Retirement Fund:			
Revenues/Transfers	\$ 1,182,866	\$ 1,108,952	\$ 73,914
Expenditures/Transfers	\$ 1,098,242	\$ 1,098,870	\$ (628)
Fund Balance	\$ 151,218	\$ 66,594	\$ 84,624
School Food Service Fund:			
Revenues	\$ 349,914	\$ 361,090	\$ (11,176)
Expenditures	\$ 361,155	\$ 356,011	\$ 5,144
Fund Balance	\$ (12,627)	\$ (1,386)	\$ (11,241)
Athletic Fund:			
Revenues/Transfers	\$ 160,078	\$ 162,727	\$ (2,649)
Expenditures/Transfers	\$ 160,783	\$ 169,457	\$ (8,674)
Fund Balance	\$ 5,229	\$ 5,934	\$ (705)

General Fund - The main increase in revenue is related to the QZAB funding, classroom rentals, and Comprehensive School Reform Grant. Increases in health care and retirement, and the QZAB expenditures are the major changes in expenditures.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. The District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments.

School Food Service Fund - The General Fund has not been required to make operating transfers recent years to the School Food Service Fund.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. The increase in expenditures include ice rental and travel expenses.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2006, the original budget was adopted on June 27, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

**Hancock Public Schools  
Management's Discussion and Analysis  
June 30, 2006**

**General Fund Budgetary Highlights (Continued)**

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 7,224,973	\$ 7,312,786	\$ 7,224,716	\$ (88,070)	-1.2%
Expenditures					
Instruction	\$ 5,081,299	\$ 5,039,700	\$ 5,026,070	\$ 13,630	0.3%
Supporting services	2,410,661	2,470,748	2,478,124	(7,376)	-0.3%
Total expenditures	\$ 7,491,960	\$ 7,510,448	\$ 7,504,194	\$ 6,254	0.1%
Other financing sources (uses)	\$ (19,178)	\$ 267,889	\$ 510,535	\$ (242,646)	-48%

Other financing sources (uses) increases represents primarily the QZAB bond proceeds received in December, 2005.

**Capital Assets and Debt Administration**

Capital Assets: The District's net investment in capital assets decreased by \$401,537 during the fiscal year. The district purchased a copier, printer and scanner for the elementary school and a server totaling \$25,543. These were purchased utilizing the QZAB funding. The decrease was due to depreciation.

Additional information on the District's capital assets can be found on a page 25 of this report.

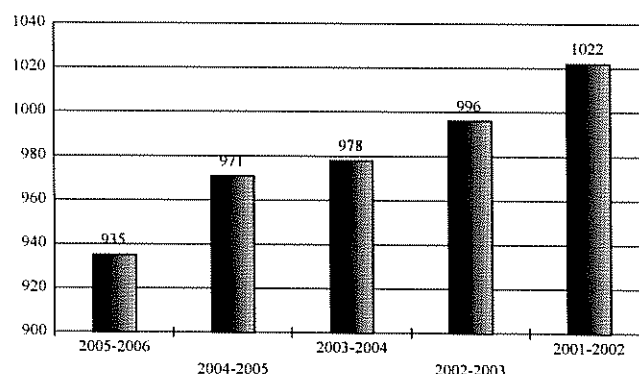
Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$13,529,085. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$6,725,797 during the fiscal year due to advanced refunding and the School Bond Loan Fund's accrued interest was increased by \$165,113.

Additional information on the District's long-term debt can be found on a page 26 of this report.

**Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations**

The graph depicts 3.9% decline in the number of students enrolled from the previous year, using the State Aid Membership Count.

**State Aid Membership Count**



**Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations (Continued)**

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This represents an increase of \$175, the first in three years.

Approximately seventy-seven percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Each year the district is forced to borrow money against projected State Aid to meet payroll needs during the months of August and September. The borrowing has remained constant at \$1,200,000 over the past three years and for the school year 2005-06.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Hancock Public Schools.

**HANCOCK PUBLIC SCHOOLS**  
**STATEMENT OF NET ASSETS**

**June 30, 2006**

	Governmental Activities
<b>ASSETS:</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 135,186
Investments	3,959
Taxes receivable	109,191
Accounts receivable	26,505
Due from other governmental units	<u>1,128,863</u>
<b>TOTAL CURRENT ASSETS</b>	<u><b>1,403,704</b></u>
<b>NON-CURRENT ASSETS:</b>	
Restricted cash	313,905
Capital assets	17,445,611
Less: Accumulated depreciation	<u>(6,544,220)</u>
Net Capital Assets	<u>10,901,391</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u><b>11,215,296</b></u>
<b>TOTAL ASSETS</b>	<u><b>\$ 12,619,000</b></u>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 82,783
Accrued expenses	139,622
Accrued interest	1,235,046
State Aid repayment short-term	53,437
Short-term note payable	1,194,878
Notes payable within one year	3,047
Bonds payable within one year	<u>709,491</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u><b>3,418,304</b></u>
<b>NON-CURRENT LIABILITIES</b>	
Bonds payable, due in more than one year	9,632,072
Installment loans payable, due in more than one year	1,177
Compensated absences	178,361
State Aid repayment	89,664
School bond loan fund payable	<u>3,040,199</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u><b>12,941,473</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>16,359,777</b></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(3,719,641)
Restricted for debt service	151,218
Unreserved	<u>(172,354)</u>
<b>TOTAL NET ASSETS</b>	<u><b>(3,740,777)</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 12,619,000</b></u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2006**

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b><u>FUNCTIONS/PROGRAMS</u></b>				
Government Activities:				
Instruction and instructional support	\$ 5,409,407	\$ -	\$ 787,298	\$ (4,622,109)
Support services	2,501,351	-	-	(2,501,351)
School service	363,655	144,086	205,717	(13,852)
Athletics	169,406	55,313	-	(114,093)
Interest on long-term debt	943,778	-	-	(943,778)
Other debt service	4,171	-	-	(4,171)
Total Governmental Activities	<u>\$ 9,391,768</u>	<u>\$ 199,399</u>	<u>\$ 993,015</u>	<u>(8,199,354)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations				652,427
Property taxes, levied for debt service				1,148,108
Other taxes				3,912
State school aid - unrestricted				5,625,907
Interest and investment earnings				159,168
Other				195,271
Transfers				<u>236,044</u>
Total general revenues and transfers				<u>8,020,837</u>
Change in Net Assets				(178,517)
Net Assets - Beginning				<u>(3,562,260)</u>
Net Assets - Ending				<u>\$ (3,740,777)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2006**

	General	Debt Service Fund	Other Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 124,929	\$ -	\$ 10,257	\$ 135,186
Investments	3,959	-	-	3,959
Taxes receivable	50,987	58,204	-	109,191
Accounts receivable	25,100	-	1,405	26,505
Due from other governmental units	1,126,593	-	2,270	1,128,863
Due from other funds	20,637	-	-	20,637
Restricted cash	220,891	93,014	-	313,905
<b>TOTAL ASSETS</b>	<b>\$ 1,573,096</b>	<b>\$ 151,218</b>	<b>\$ 13,932</b>	<b>\$ 1,738,246</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 82,090	\$ -	\$ 693	\$ 82,783
Accrued expenses	139,622	-	-	139,622
Due to other funds	-	-	20,637	20,637
Short-term notes payable	1,194,878	-	-	1,194,878
<b>TOTAL LIABILITIES</b>	<b>1,416,590</b>	<b>-</b>	<b>21,330</b>	<b>1,437,920</b>
<b>FUND BALANCES:</b>				
Reserved	-	151,218	-	151,218
Unreserved	156,506	-	(7,398)	149,108
<b>TOTAL FUND BALANCES</b>	<b>156,506</b>	<b>151,218</b>	<b>(7,398)</b>	<b>300,326</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,573,096</b>	<b>\$ 151,218</b>	<b>\$ 13,932</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,901,391
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(13,707,448)
Accrued interest is not included as a liability in governmental funds	(1,235,046)
Net assets of governmental activities	<u>\$ (3,740,777)</u>

The accompanying notes to the financial statements are an integral part of this statement.



**HANCOCK PUBLIC SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
<b>REVENUES:</b>				
Local sources	\$ 864,377	\$ 1,182,866	\$ 199,510	\$ 2,246,753
State sources	6,068,643	-	10,577	6,079,220
Federal sources	291,698	-	195,140	486,838
Total revenues	<u>7,224,718</u>	<u>1,182,866</u>	<u>405,227</u>	<u>8,812,811</u>
<b>EXPENDITURES:</b>				
Instruction	5,026,070	-	-	5,026,070
Supporting services	2,478,124	-	-	2,478,124
School service	-	-	361,155	361,155
Athletics	-	-	160,783	160,783
Debt service	-	1,098,242	-	1,098,242
Total expenditures	<u>7,504,194</u>	<u>1,098,242</u>	<u>521,938</u>	<u>9,124,374</u>
Excess (deficiency) of revenue over expenditures	<u>(279,476)</u>	<u>84,624</u>	<u>(116,711)</u>	<u>(311,563)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)	(104,765)	-	104,765	-
Incoming transfers - other schools	376,999	-	-	376,999
QZAB loan proceeds	379,255	-	-	379,255
Outgoing transfers - other schools	<u>(140,955)</u>	<u>-</u>	<u>-</u>	<u>(140,955)</u>
Total other financing sources (uses)	<u>(510,534)</u>	<u>-</u>	<u>104,765</u>	<u>(615,299)</u>
<b>NET CHANGE IN FUND BALANCE</b>	231,058	84,624	(11,946)	303,736
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>(74,552)</u>	<u>66,594</u>	<u>4,548</u>	
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 156,506</u>	<u>\$ 151,218</u>	<u>\$ (7,398)</u>	

Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(401,536)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(199,397)
Bond proceeds increases long-term debt in the statement of activities	(379,255)
Repayment of excess school aid to the State	52,864
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	(445,071)
Change in net assets of governmental activities	<u>\$ (178,517)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2006**

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 119,755
TOTAL ASSETS	<u>\$ 119,755</u>
LIABILITIES	
Due to student groups	\$ 48,924
Scholarship funds	70,831
TOTAL LIABILITIES	<u>\$ 119,755</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Hancock Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

**REPORTING ENTITY**

Hancock Public Schools (the "District") is governed by the Hancock Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Hancock Public Schools Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Hancock School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, and Athletic Activities.

Fiduciary Funds:

The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

**Accrual Method**

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

**Modified Accrual Method**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Other Accounting Policies*

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by Franklin Township, Hancock Township, Quincy Township and the City of Hancock and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund - Non-homestead	18.00
Debt service fund - Homestead and non-homestead	11.33

A Local Development Financing Authority is located in the District. The Authority has established a SmartZone that captures 12 mills of the 18 mills from the (Non-homestead) operating taxes.

Receivables and Payables

Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$178,361, consisted of sick leave and vacation balances.

Teachers with a minimum of 10 years of service in the District, and all non-affiliated staff are entitled to receive 50% of their accumulated sick leave up to a maximum of 160 days upon termination at the current daily rate for substitute teachers (not to exceed \$60). Teachers eligible to retire under the provisions of MPSERS are entitled to receive 60% of their accumulated sick leave upon retirement. Unionized support staff who retire under the provisions of MPSERS, are entitled to receive 50% of their accumulated sick time up to the maximum 180 days at the rate of \$30 per day. Total accrued sick leave as of June 30, 2006 is \$157,836.

Teachers do not accumulate vacation time and the unionized support staff are required to take their vacation during the contract year or else it is forfeited. Non-affiliated staff are required to use all vacation time accrued in a school calendar year, during that school calendar year. Days accrued in a school calendar year and not used will be lost. Total accrued vacation as of June 30, 2006 is \$20,525.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

**NOTE C - CASH AND INVESTMENTS**

As of June 30, 2006 the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Rating	%
MILAF - MIMAX	<u>\$ 3,959</u>	.0837	AAA	100.00%

1 day maturity equals 0.0027, one year equals 1.00

Interest Rate Risk - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.



**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE C - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$363,461 of the District's bank balance of \$873,562 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

At year-end, the School District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 135,111	\$ 0	\$ 135,111
Petty cash	75	0	75
Total unrestricted	135,186	0	135,186
Restricted cash	313,905	54,772	368,677
Total cash and cash equivalents	449,091	54,772	503,863
Investments	3,959	64,983	68,942
Total deposits and investments	\$ 453,050	\$ 119,755	\$ 572,805

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

	06/30/05	Additions	Deletions	06/30/06
Land	\$ 171,938	\$ 0	\$ 0	\$ 171,938
Building and additions	14,045,803	0	0	14,045,803
Improvements other than building	549,994	0	0	549,994
Equipment and furniture	2,254,476	25,543	0	2,280,019
Vehicles	54,233	0	0	54,233
School buses	343,624	0	0	343,624
	17,420,068	25,543	0	17,445,611
Accumulated depreciation:				
Building and additions	4,150,881	281,712	0	4,432,593
Improvements other than building	170,623	27,500	0	198,123
Equipment and furniture	1,470,096	89,417	0	1,559,513
Vehicles	46,751	2,745	0	49,496
School buses	278,790	25,706	0	304,496
	6,117,141	427,080	0	6,544,221
Net capital assets	\$ 11,302,927	\$ (401,537)	\$ 0	\$ 10,901,390

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE D - FIXED ASSETS (Continued)**

Depreciation expense was charged to activities of the School District as follows:

Governmental activities		
Athletic Fund	\$	8,623
School Service Fund		2,500
General Fund:		
Instruction		385,691
Operations		4,560
Transportation		25,706
Total governmental activities	\$	<u>427,080</u>

**NOTE E - RECEIVABLES**

Receivables from governmental units at June 30, 2006 consist of the following:

	General Fund	School Service	Total
State aid	\$ 1,111,613	\$ 2,270	\$ 1,113,883
Federal revenue	14,980	0	14,980
	<u>\$ 1,126,593</u>	<u>\$ 2,270</u>	<u>\$ 1,128,863</u>

**NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2006 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 20,637	General	\$ 0
School	0	School	20,637
TOTAL	<u>\$ 20,637</u>	TOTAL	<u>\$ 20,637</u>

Fund	Transfer In	Fund	Transfer Out
General	\$ 0	General	\$ 104,765
Athletic	104,765	Athletic	0
TOTAL	<u>\$ 104,765</u>	TOTAL	<u>\$ 104,765</u>

**NOTE G - SHORT-TERM NOTE PAYABLE**

On August 19, 2005, the School District obtained a one year operating loan from the School Loan Fund in the amount of \$1,200,000 with an interest rate of 2.92%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest is due semi-annually and principal is due at maturity on August 18, 2006.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE H - LONG-TERM DEBT**

2002 Advance Refunding

On February 22, 2002, the District issued \$4,575,000 of general obligation unlimited tax bonds to advance refund \$4,420,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1991 Refunding Bonds dated November 7, 1991 and to establish an "Escrow Fund." The Escrow Fund was held by an escrow agent to pay the principle and interest, and call premiums due on the refunded bonds.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.40% to 5.00% per annum. Interest payments started on November 1, 2002, and are payable semi-annually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2006-2007	\$ 69,369	\$ 69,369	\$ 375,000	\$ 513,738
2007-2008	61,869	61,869	360,000	483,738
2008-2009	55,209	55,209	350,000	460,418
2009-2010	48,384	48,384	345,000	441,768
2010-2011	39,759	39,759	340,000	419,518
2011-2012	32,704	32,704	330,000	395,408
2012-2013	25,691	25,691	315,000	366,382
2013-2016	36,014	36,014	830,000	902,028
TOTAL	<u>\$ 368,999</u>	<u>\$ 368,999</u>	<u>\$ 3,245,000</u>	<u>\$ 3,982,998</u>

2004 Advance Refunding

On November 30, 2004 the District issued \$6,720,000 of general obligation unlimited tax refunding bonds to advance refund \$6,635,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1996 Building and Site Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2006.

The bond issue matures as indicated below with interest at varying rates of 2.5% to 4.65% per annum. Interest payments started on May 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2015, are by subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2014, at par plus accrued interest to the date fixed for redemption.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE H - LONG-TERM DEBT (Continued)**

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2006-2007	\$ 127,115	\$ 127,115	\$ 330,000	\$ 584,230
2007-2008	122,990	122,990	350,000	595,980
2008-2009	118,177	118,178	345,000	581,355
2009-2010	113,002	113,003	350,000	576,005
2010-2011	107,752	107,753	360,000	575,505
2011-2012	101,452	101,453	355,000	557,905
2012-2013	95,240	95,240	350,000	540,480
2013-2018	377,275	377,275	1,690,000	2,444,550
2018-2023	208,803	208,804	1,610,000	2,027,607
2023-2026	42,509	42,509	925,000	1,010,018
	<u>\$ 1,414,315</u>	<u>\$ 1,414,320</u>	<u>\$ 6,665,000</u>	<u>\$ 9,493,635</u>

School Bond Loan Fund

In prior years, the School District has borrowed funds from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2005, the balance due to the School Bond Loan Fund, including accrued interest totaling \$1,169,552, was \$4,209,751.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1991 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2006 was 4.5%.

QZAB BONDS

On December 28, 2005, the School District issued \$379,255 of Qualified Zone Academy Bonds (QZAB) to finance the purchase of four school buses, photocopier, printer and scanner, and computers, software, furniture, printers and related items.

The bond issue matures as indicated below and bears an interest rate of 0.00% per annum. The Bonds are not subject to redemption prior to maturity. The School District is required to set-aside installments beginning with the fiscal year 2006-07 and continuing until such time as the set-aside installments, together with interest accrued on such set-aside installments equals \$379,255 on the sixth anniversary of issuance.

Fiscal Year	Principal
2010-11	\$ 5,000
2011-12	374,255
	<u>\$ 379,255</u>

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$88,587 of school improvement bonds for the purpose of upgrading educational technology systems, acquiring new equipment for the elementary school, updating the technology infrastructure, constructing a storage facility, and purchasing a school bus.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE H - LONG-TERM DEBT (Continued)**

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bond is not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the School District, not the State.

Fiscal Year	May 15 Interest	May 15 Principal	Total
2006-2007	\$ 1,729	\$ 4,491	\$ 6,220
2007-2008	1,515	4,706	6,221
2008-2009	1,291	4,930	6,221
2009-2010	1,056	5,165	6,221
2010-2011	810	5,411	6,221
2011-2012	553	5,668	6,221
2012-2013	7,419	21,937	29,356
TOTAL	<u>\$ 14,373</u>	<u>\$ 52,308</u>	<u>\$ 66,681</u>

Installment Loan

On November 18, 2002, the District entered into an installment purchase agreement with Superior National Bank & Trust Company in the amount of \$13,975 for a copy machine. This loan has an annual percentage rate of 5.0% and fixed payments in the amount of \$265.73 will be made monthly which will include interest. The loan with First National Bank Calumet-Lake Linden will expire October 18, 2007, at which time the District will legally own the copier.

The following is a schedule of the loan payments:

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 142	\$ 3,047	\$ 3,189
2007-2008	14	1,176	1,190
TOTAL	<u>\$ 156</u>	<u>\$ 4,223</u>	<u>\$ 4,379</u>

State Aid Repayment

In March of 2005, the District received information that the Captured Assessed Valuation (CAV) for the district was overstated resulting in excess school aid of \$267,182 to the district.

The Michigan Department of Education sought to recoup these funds, except for the districts which promptly document that the recoupment would cause the school district to "experience significant hardship."

The District received approval for the payments to be spread over the next five years through reductions in the state aid payment in May of each year.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE H - LONG-TERM DEBT (Continued)**

Remaining payments at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2006-2007	\$ 53,436
2007-2008	53,436
2008-2009	36,228
<b>TOTAL</b>	<b>\$ 143,100</b>

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2006:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Current</u> <u>Portion</u>
1996 Bond Loan	\$ 6,635,000	\$ 0	\$ 6,635,000	\$ 0	\$ 0
2002 Refunding Bond	3,600,000	0	355,000	3,245,000	375,000
2004 Refunding Bond	6,720,000	0	55,000	6,665,000	330,000
School Bond Loan	3,040,199	0	0	3,040,199	0
QZAB Bond	0	379,255	0	379,255	0
Durant Bond Loan	56,596	0	4,288	52,308	4,492
State Aid Repayment	195,965	0	52,865	143,100	53,436
Installment Loans	7,122	0	2,899	4,223	3,047
	<u>20,254,882</u>	<u>379,255</u>	<u>7,105,052</u>	<u>13,529,085</u>	<u>\$ 765,975</u>
Accrued Interest	1,051,800	183,246	0	1,235,046	
Accrued Benefits	162,210	16,151	0	178,361	
<b>TOTAL</b>	<b>\$ 21,468,892</b>	<b>\$ 578,652</b>	<b>\$ 7,105,052</b>	<b>\$ 14,942,492</b>	

As of June 30, 2006, the aggregate maturities of long-term debt for the next 10 years and there after are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006-2007	\$ 394,839	\$ 765,974	\$ 1,160,813
2007-2008	371,247	769,318	1,140,565
2008-2009	348,064	736,158	1,084,222
2009-2010	323,829	700,165	1,023,994
2010-2011	295,833	710,411	1,006,244
2011-2012	268,866	1,064,923	1,333,789
2012-2013	249,281	686,937	936,218
2013-2018	826,578	2,520,000	3,346,578
2018-2023	417,607	1,610,000	2,027,607
2023-2026	1,254,570	3,965,199	5,219,769
<b>TOTAL</b>	<b>\$ 4,750,714</b>	<b>\$ 13,529,085</b>	<b>\$ 18,279,799</b>

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 14.87% of covered compensation through September 30, 2005 and 16.34% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$773,585, which consisted of \$670,955 from the District and \$102,630 from employees electing the MIP option. These represent approximately 14.11% and 2.46% of covered payroll, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPSERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPSERS as a whole, the actuarial accrued liability was \$46.3 billion. The pension plan net assets were \$39 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 84.88%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2006 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2005 annual report. The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**NOTE J - FOUNDATION REVENUE**

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE J - FOUNDATION REVENUE (Continued)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2005-06 Foundation		\$	6,875.00
Less Local Support:			
Non-Homestead Tax Value	36,681,359		
Multiplied by mills	0.018		
Total Local Support	660,264		
Divided by General Education K-12 membership	908.19		
Calculated Local Support			(727.01)
		\$	<u>6,147.99</u>

**NOTE K - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES**

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Total current payments per R7120	\$	465,006
Less prior year accounts receivables:		
Title I		(3,415)
Title II A		(9,303)
Plus:		
Title I accounts receivable		3,745
CSR accounts receivable		11,234
Title II A accounts receivable		0
USDA Commodities		19,571
Total Federal Financial Assistance	\$	<u>486,838</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2006 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

**NOTE L - CONTINGENT LIABILITIES**

Risk Pool Hancock Public Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Hancock Public Schools joined together with other school districts currently operating a common risk management and insurance program. Hancock Public Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.



**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE L - CONTINGENT LIABILITIES (Continued)**

Hancock Public Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the School District

**NOTE M - SUBSEQUENT EVENT**

School Loan Fund: On August 18, 2006, the School District entered into a note with the School Loan Fund. The principal amount and the interest rate on the Note shall not exceed \$1,400,000 and 3.68% per annum, respectively. The note matures on August 20, 2007. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**HANCOCK PUBLIC SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 852,866	\$ 903,502	\$ 864,377	\$ (39,125)
State sources	6,080,040	6,100,143	6,068,643	(31,500)
Federal sources	292,067	309,141	291,698	(17,443)
TOTAL REVENUE	7,224,973	7,312,786	7,224,718	(88,068)
EXPENDITURES:				
Instruction	5,081,299	5,039,700	5,026,070	13,630
Supporting services	2,410,661	2,470,748	2,478,124	(7,376)
TOTAL EXPENDITURES	7,491,960	7,510,448	7,504,194	6,254
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(266,987)	(197,662)	(279,476)	(81,814)
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	234,763	386,159	376,999	(9,160)
Sale of fixed assets	-	10,000	-	(10,000)
Loan proceeds	-	135,000	379,255	244,255
Lease payments	(40,934)	-	-	-
Operating transfers out	(134,000)	(104,315)	(104,765)	(450)
Other outgoing transfers	(79,007)	(158,955)	(140,955)	18,000
Total other financing sources (uses)	(19,178)	267,889	510,534	242,645
NET CHANGE IN FUND BALANCE	\$ (286,165)	\$ 70,227	231,058	\$ 160,831
FUND BALANCE - BEGINNING OF YEAR			(74,552)	
FUND BALANCE - END OF YEAR			\$ 156,506	

**SUPPLEMENTAL FINANCIAL INFORMATION**

**HANCOCK PUBLIC SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 660,265	\$ 652,427	\$ (7,838)	\$ 627,204
Penalties & interest on delinquent taxes	7,000	2,617	(4,383)	4,187
Total taxes	<u>667,265</u>	<u>655,044</u>	<u>(12,221)</u>	<u>631,391</u>
Other local sources:				
Investment revenue	26,000	21,843	(4,157)	12,452
Tuition	19,000	8,546	(10,454)	17,262
Rentals	30,000	24,176	(5,824)	15,469
Contributions	25,000	29,068	4,068	2,350
Day Care/Latch Key fees	55,000	48,430	(6,570)	58,702
Miscellaneous	81,237	77,270	(3,967)	93,480
Total other local sources	<u>236,237</u>	<u>209,333</u>	<u>26,904</u>	<u>199,715</u>
Total local sources	<u>903,502</u>	<u>864,377</u>	<u>(39,125)</u>	<u>831,106</u>
State sources:				
Unrestricted grant - State Aid	<u>5,611,902</u>	<u>5,573,043</u>	<u>(38,859)</u>	<u>5,650,135</u>
Restricted grants:				
Driver's education	-	-	-	3,603
Durant proceeds	-	8,859	(8,859)	8,859
Special Education	217,446	217,446	-	216,550
School Readiness	95,700	95,700	-	105,600
At-risk	172,827	172,685	142	196,690
Other state revenue	2,268	910	(1,358)	4,311
Total restricted grants	<u>488,241</u>	<u>495,600</u>	<u>7,359</u>	<u>535,613</u>
Total state sources	<u>6,100,143</u>	<u>6,068,643</u>	<u>(31,500)</u>	<u>6,185,748</u>
Federal sources:				
Title I	149,252	149,252	-	157,716
Title V	395	395	-	3,039
Title II	51,929	51,929	-	54,075
Comprehensive School Reform	107,000	90,122	16,878	-
Other federal sources	565	-	(565)	-
Total federal sources	<u>309,141</u>	<u>291,698</u>	<u>(17,443)</u>	<u>214,830</u>
TOTAL REVENUES	<u>7,312,786</u>	<u>7,224,718</u>	<u>(88,068)</u>	<u>7,231,684</u>

**HANCOCK PUBLIC SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE (Continued)**  
**Year Ended 2006**

EXPENDITURES:	BUDGET	ACTUAL	VARIANCE	2005
Instruction:				
Basic program:				
Elementary School	1,644,255	1,649,777	(5,522)	1,606,642
Middle School	921,946	898,665	23,281	985,044
High School	1,334,104	1,330,167	3,937	1,338,616
Total basic program	3,900,305	3,878,609	21,696	3,930,302
Added needs:				
Special education - Elementary School	744,008	743,359	649	686,780
School Readiness	95,700	98,700	(3,000)	108,177
Compensatory education	149,252	149,216	36	157,716
At-Risk	150,435	156,186	(5,751)	160,919
Total added needs	1,139,395	1,147,461	(8,066)	1,113,592
Total instruction	5,039,700	5,026,070	13,630	5,043,894
Supporting services:				
Pupil:				
Guidance	148,303	147,275	1,028	134,210
Health	60,627	60,732	(105)	49,181
Total pupil	208,930	208,007	923	183,391
Instructional staff:				
Improvement of instruction	7,291	7,291	-	-
Library	129,778	128,893	885	125,983
Total instructional staff	137,069	136,184	885	125,983
General administration:				
Board of education	69,894	71,582	(1,688)	37,473
Executive administration	192,453	192,027	426	184,266
Total general administration	262,347	263,609	(1,262)	221,739
School administration:				
Office of principal - Elementary School	140,998	134,579	6,419	170,244
Office of principal - Middle School	150,198	149,419	779	146,459
Office of principal - High School	154,661	158,874	(4,213)	153,846
Total school administration	445,857	442,872	2,985	470,549
Business-fiscal services	115,337	120,230	(4,893)	92,419
Operation & maintenance	804,890	809,146	(4,256)	824,336
Pupil transportation	264,129	265,559	(1,430)	287,567
Other technical support	170,379	170,853	(474)	117,651

**HANCOCK PUBLIC SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE (Continued)**  
**Year Ended 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
Community services	<u>61,810</u>	<u>61,664</u>	<u>146</u>	<u>72,746</u>
Total supporting services	<u>2,470,748</u>	<u>2,478,124</u>	<u>(7,376)</u>	<u>2,396,381</u>
TOTAL EXPENDITURES	<u>7,510,448</u>	<u>7,504,194</u>	<u>6,254</u>	<u>7,440,275</u>
EXCESS OF REVENUES OVER EXPENDITURES	(197,662)	(279,476)	(81,814)	(208,591)
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	386,159	376,999	(9,160)	253,858
Operating transfer out	(104,315)	(104,765)	(450)	(116,861)
Loan proceeds	135,000	379,255	244,255	-
Sale of fixed assets	10,000	-	(10,000)	1,447
Other outgoing transfers	(158,955)	(140,955)	18,000	(85,538)
Lease payments	-	-	-	(40,934)
TOTAL OTHER FINANCING SOURCES (USES)	<u>267,889</u>	<u>510,534</u>	<u>242,645</u>	<u>11,972</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 70,227</u>	231,058	<u>\$ 160,831</u>	(196,619)
FUND BALANCE, BEGINNING OF YEAR		<u>(74,552)</u>		<u>122,067</u>
FUND BALANCE, END OF YEAR		<u>\$ 156,506</u>		<u>\$ (74,552)</u>

**HANCOCK PUBLIC SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2006**

	School		Totals	
	Service	Athletic	Memorandum Only	
			2006	2005
ASSETS AND OTHER DEBITS:				
Cash	\$ 5,960	\$ 4,297	\$ 10,257	\$ 21,559
Receivables	(220)	1,625	1,405	2,997
Due from other governmental units	2,270	-	2,270	2,317
TOTAL ASSETS	<u>\$ 8,010</u>	<u>\$ 5,922</u>	<u>\$ 13,932</u>	<u>\$ 26,873</u>
LIABILITIES:				
Accounts payable	\$ -	\$ 693	\$ 693	\$ 529
Due to other funds	20,637	-	20,637	21,796
TOTAL LIABILITIES	<u>20,637</u>	<u>693</u>	<u>21,330</u>	<u>22,325</u>
FUND EQUITY:				
Fund balance - unreserved	<u>(12,627)</u>	<u>5,229</u>	<u>(7,398)</u>	<u>4,548</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 8,010</u>	<u>\$ 5,922</u>	<u>\$ 13,932</u>	<u>\$ 26,873</u>



**HANCOCK PUBLIC SCHOOLS**  
**SCHOOL SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Adult lunches	\$ 21,200	\$ 22,557	\$ 1,357	\$ 24,022
A-La-Carte	1,050	1,031	(19)	4,217
Student lunches	115,000	115,564	564	122,547
Earnings on investments	120	111	(9)	44
Miscellaneous	5,300	4,934	(366)	11,591
Total local sources	<u>142,670</u>	<u>144,197</u>	<u>1,527</u>	<u>162,421</u>
State sources	<u>10,576</u>	<u>10,577</u>	<u>1</u>	<u>9,108</u>
Federal sources:				
School lunch program	154,654	175,569	20,915	171,884
USDA entitlements	5,000	17,336	12,336	15,038
USDA bonus entitlements	2,330	2,235	(95)	2,639
Total federal sources	<u>161,984</u>	<u>195,140</u>	<u>33,156</u>	<u>189,561</u>
TOTAL REVENUES	<u>315,230</u>	<u>349,914</u>	<u>34,684</u>	<u>361,090</u>
EXPENDITURES:				
Salaries	136,565	136,564	1	127,510
Employee benefits	47,571	47,569	2	49,919
Purchase services	-	-	-	868
Supplies, materials, and other	155,864	177,022	(21,158)	177,714
TOTAL EXPENDITURES	<u>340,000</u>	<u>361,155</u>	<u>(21,155)</u>	<u>356,011</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (24,770)</u>	<u>(11,241)</u>	<u>\$ (13,529)</u>	<u>5,079</u>
FUND BALANCE, BEGINNING OF YEAR		<u>(1,386)</u>		<u>(6,465)</u>
FUND BALANCE, END OF YEAR		<u>\$ (12,627)</u>		<u>\$ (1,386)</u>

**HANCOCK PUBLIC SCHOOLS**  
**ATHLETIC FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>2006</u>	<u>2005</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 46,475	\$ 37,243
Other	<u>8,838</u>	<u>8,623</u>
TOTAL REVENUES	<u>55,313</u>	<u>45,866</u>
EXPENDITURES:		
Salaries	69,241	78,692
Employee benefits	15,799	17,621
Purchase services	44,528	35,412
Supplies, materials, and other	<u>31,215</u>	<u>37,732</u>
TOTAL EXPENDITURES	<u>160,783</u>	<u>169,457</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(105,470)	(123,591)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>104,765</u>	<u>116,861</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(705)	(6,730)
FUND BALANCE, BEGINNING OF YEAR	<u>5,934</u>	<u>12,664</u>
FUND BALANCE, END OF YEAR	<u>\$ 5,229</u>	<u>\$ 5,934</u>

**HANCOCK PUBLIC SCHOOLS**  
**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Current taxes	\$ 1,122,724	\$ 1,148,108	\$ 25,384	\$ 1,094,554
Interest income	25,618	29,594	3,976	8,811
Penalties & interest on delinquent taxes	6,000	5,164	(836)	5,587
TOTAL REVENUES	<u>1,154,342</u>	<u>1,182,866</u>	<u>28,524</u>	<u>1,108,952</u>
EXPENDITURES:				
Interest on bonds	424,953	426,885	(1,932)	472,322
Redemption of bond principle	660,000	664,288	(4,288)	590,000
Agent Fees	1,041	1,041	-	29,660
Other expense	2,499	6,028	(3,529)	6,888
TOTAL EXPENDITURES	<u>1,088,493</u>	<u>1,098,242</u>	<u>(9,749)</u>	<u>1,098,870</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 65,849</u>	84,624	<u>\$ 18,775</u>	10,082
FUND BALANCE, BEGINNING OF YEAR		<u>66,594</u>		<u>56,512</u>
FUND BALANCE, END OF YEAR		<u>\$ 151,218</u>		<u>\$ 66,594</u>

**HANCOCK PUBLIC SCHOOLS**  
**TRUST AND AGENCY FUND - SCHOOL ACTIVITIES**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

	Balance July 1, 2005	Receipts	Disbursements	Balance June 30, 2006
ASSETS:				
Cash	\$ 49,108	\$ 116,019	\$ 116,203	\$ 48,924
LIABILITIES:				
Due to Student Groups:				
Elementary School	\$ 12,291	\$ 60,774	\$ 61,652	\$ 11,413
Middle School	6,832	4,216	7,100	3,948
High School	29,985	51,029	47,451	33,563
TOTAL LIABILITIES	\$ 49,108	\$ 116,019	\$ 116,203	\$ 48,924

**HANCOCK PUBLIC SCHOOLS**  
**SCHOLARSHIP FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2006**

	<u>Balance</u> <u>July 1, 2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS:				
Cash	\$ 70,704	\$ 2,537	\$ 2,410	\$ 70,831
LIABILITIES:				
Scholarship funds				
Mary C. Orella	\$ 70,704	\$ 2,537	\$ 2,410	\$ 70,831



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### LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education  
Hancock Public Schools  
Hancock, Michigan

In connection with our audit of the financial statements of Hancock Public Schools, as of and for the year ended June 30, 2006, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

#### QuickBooks Accounting Records (5<sup>th</sup> year repeat)

Each level of education (elementary, middle and secondary schools) uses accounting software to record agency fund (school activities) and athletic activities. This information is not reviewed until the end of each year. In all cases, one individual records receipts, deposits the receipts, prepares checks and reconciles the bank accounts creating a lack of segregation of duties in the receipt and disbursement accounting systems. It is recommended that a review process be established for each of these accounting programs and that internal controls in this area be improved through segregation of duties.

It should be noted that the District has implemented the following procedures for the fiscal year 2006-07: Student and athletic financials will be presented monthly to the board and the business manager will review the bank reconciliations and reports on a monthly basis.

#### Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the general purpose financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency, and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

August 16, 2006